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C O N F I D E N T I A L SECTION 01 OF 03 TRIPOLI 000532

SIPDIS

DEPT FOR NEA/MAG

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TAGS: PGOV PREL ECON EINV ENRG EPET PINS LY
SUBJECT: GOL SENDS MIXED SIGNALS ON WHETHER IT COULD CUT OIL PRODUCTION

TRIPOLI 00000532 001.2 OF 003

CLASSIFIED BY: Chris Stevens, CDA, U.S. Embassy - Tripoli, Dept of State.
REASON: 1.4 (b), (d)

¶1. (C) Summary: In a recent meeting, the head of Libya's National Oil Corporation (NOC) reiterated that Libya could/could cut oil production as a response to U.S. legislation facilitating attachment of Libyan assets and lawsuits against it; however, other GOL sources cautioned that his remarks were targeted primarily at the domestic Libyan audience. He said GOL leaders were "working hard" on issues related to resolving outstanding terrorism-related claims against Libya in U.S. courts and well understood the urgency of moving quickly to do so. Ghanem equivocated on whether a Development and Production Sharing (DePSA) bid round to foreign oil companies for re-working of existing fields would be necessary for Libya to produce 3 million barrels/day of oil by 2012, but made it clear that the NOC would not/not open a DePSA round unless and until it was broadly agreed among senior GOL officials that such a mechanism was politically palatable. Ghanem seemed eager to play a positive role in resolving the claims compensation issue; his remarks suggested that the GOL is using a model for contributions akin to that it ultimately adopted in the case of the Bulgarian medics. End summary.

¶2. (C) The CDA met with Dr. Shukri Ghanem, Chairman of Libya's National Oil Corporation (NOC), on July 3 to discuss energy sector developments and U.S.-Libya cooperation. Ghanem was accompanied by Dr. Abdullah Ballut, Libya's OPEC Governor; P/E Chief attended as notetaker. The CDA asked Ghanem to clarify his remarks at the Jeddah Energy Conference on June 22 to the effect that Libya may/may effect a unilateral cut in oil production in response to Section 1083 of the 2008 National Defense Authorization Act (the so-called "Lautenberg Amendment"), adopted in January 2008, and the No Oil Producing or Exporting Cartels Act of 2008 (the so-called "NOPEC" bill), which was passed by the House in May and is now before the Senate. Ghanem's remarks in Jeddah suggested that while Libya has increased its oil production in recent years, the threat of potential asset seizure (under the Lautenberg Amendment) and exposure to lawsuits for price manipulation (under NOPEC) may drive the GOL to cut production despite the cost to the country's ambitious economic development program.

GHANEM REITERATES CLAIM THAT LIBYA MAY CUT OIL PRODUCTION

¶3. (C) Known for his candor, Ghanem explained that he meant

what he said: Libya may choose to cut production as a reaction to what it perceives to be unfair U.S. Congressional legislation. He lamented the "illogical" damages award in a U.S. federal court of $6 billion in the UTA bombing case. With more than 20 other terrorism-related claims compensation cases in litigation in U.S. courts, Libya's exposure to other "overly harsh" judgments - motivated in his judgment by an irrational desire to make Libya pay for perceived past misdeeds - was considerable. Focusing on the potential seizure of Libyan assets under the Lautenberg Amendment, to include oil production-related payments involving U.S. and European companies, Ghanem asked how Libya could reasonably be expected to increase production in a political-economic environment in which the attendant profits were at considerable risk of attachment.

¶4. (C) Asked by P/E Chief why he had chosen to threaten a production cut in June and not earlier in the year after adoption of the Lautenberg Amendment, Ghanem declined to give a direct answer. When pressed, he said only that his remarks were motivated by both the Lautenberg Amendment and the proposed NOPEC bill. (Note: Ghanem himself has staunchly defended OPEC during his tenure as NOC Chairman, arguing that current production levels are sufficient and that price speculation and global political tension, to include inflammatory comments by world leaders, are to blame for high oil prices. End note.) In a separate meeting on July 1, MFA Secretary for the Americas Dr. Ahmed Fituri characterized Ghanem's remarks in Jeddah as having been made for domestic Libyan consumption and advised the CDA not to attach too much meaning to them.

¶5. (C) Noting that he well understood the consequences of high oil prices for the U.S. economy, Ghanem reprised themes from his Jeddah remarks in explaining spikes in oil prices. U.S. Congressional legislation in the 1980's to enforce sanctions against Iran and Libya had limited needed investment in production and refining capacity, which involved long lead-times of 10-20 years. Absent such "reckless" legislation, he claimed

Iranian and Libyan production would have been some 6 million barrels/day and 4 million barrels/day at present. (Note: Libya currently produces some 1.7 million barrels/day. End note.) More recently, U.S. Energy Secretary Bodman had warned the CEO of Italian energy giant Eni against investing in Iran, which was unhelpful. U.S. foreign policy decisions - he lambasted "blind" U.S. support for Israel and the decision to invade Iraq - and the reluctance to allow offshore drilling and production along U.S. coasts were among the factors that had brought to an end the era of cheap, easy oil. The market was now entering a period of "peak oil" in which demand was high and surplus production capacity limited. The devaluation of the dollar, speculation by investors about future oil prices and political uncertainty exacerbated price volatility.

GOL FOCUSED ON RESOLVING U.S. CLAIMS ISSUES

¶6. (C) Noting that senior GOL officials were working "very hard" on a mechanism for comprehensive settlement of all outstanding terrorism-related court cases in U.S. venues, Ghanem stressed that the GOL well understood that time was of the essence. It was impossible to overstate, he said, the impact the court cases and compensation claims could have on Libya in terms of oil production and its bilateral relations with the U.S. Referencing the UTA decision and decrying the independence of the U.S. judiciary, he said it was "inconceivable" that "a judge in some small village (sic)" could issue damages awards against Libya for billions of dollars. On reports that some GOL elements opposed to reaching a comprehensive claims settlement agreement, Ghanem conceded that certain senior regime figures who felt Libya had not been adequately compensated for its decision to abandon its WMD aspirations and renounce terrorism had strongly opposed any direct GOL contribution to a claims compensation fund, especially when they learned that the USG would not contribute, either.

U.S. COMPANIES EXPECTED TO DO WELL IN FUTURE EPSA BID ROUNDS

¶7. (C) Commenting on recent extensions of production contracts with Eni, Petro-Canada and Occidental Petroleum under terms markedly more favorable for Libya, Ghanem said the NOC had been "transparent and efficient" in negotiating contracts under its Exploration and Production Sharing Agreement (EPSA) rubric. Libya had produced 3.7 million barrels/day in the early 1970's and would - all things political remaining relatively equal - hit 3 million barrels/day by 2012. Referencing the fact that they and many other senior GOL officials had studied in the U.S. during the 1970's at the high water mark of U.S.-Libya educational cooperation, Ghanem and Ballut stressed that they "had a soft spot" for American oil and gas companies, and expected U.S. companies to continue to fare well in securing EPSA contracts in Libya. Asked whether radical privatization and government restructuring proposed by Muammar al-Qadhafi in his March 2 address to the General People's Congress would impact the NOC's operations, Ghanem laughingly said he didn't have a crystal ball and had no way of knowing. "Al-Qadhafi keeps the crystal ball in his desk" and only he (al-Qadhafi) really knew whether the proposed changes would amount to much.

NO DePSA CONTRACTS ABSENT LIBYAN POLITICAL CONSENSUS

¶8. (C) Asked whether substantial investment in the redevelopment of existing fields through enhanced oil recovery operations under a Development and Production Sharing (DePSA) bid round to foreign oil companies would be a key to reaching 3 million barrels/day, Ghanem equivocated. When pressed, he referred to Venezuela's negative experience in allocating DePSA contracts, when the Oil Minister was driven from office on related corruption charges. Libya had not yet developed a system for allocating DePSA contracts that provided sufficient political cover. Consequently, the NOC had adopted a dual approach: Libyan national oil companies were performing some DePSA work in the numerous smaller, scattered fields drilled since the 1960's while the NOC studied the two large fields - al-Haram and Entilat - in which foreign oil companies' expertise was clearly needed and developed a mechanism for obtaining political approval to give DePSA contracts to foreign companies. He conceded that the NOC had not yet determined how to resolve tension between international oil companies, who wanted production sharing arrangements rather than services contracts, and the GOL, which favored services contracts for DePSA work.

¶9. (C) Ghanem was adamant that he would not endorse allocation of DePSA contracts without a "national consensus" involving approval by the General People's Congress and senior regime elements. Explaining the political sensitivities involved, he said that do otherwise would expose him to accusations that the NOC had given oil to the U.S., which would give it to Israel, which had cut fuel shipments to the Palestinian Authority. In the context of domestic Libyan politics, DePSA contracts could expose him to charges that he had been party to a mechanism that effectively aided Israel and hurt the Palestinians, which was tantamount to political suicide.

¶10. (C) Comment: This was the Embassy's first meeting with Ghanem, who has been elusive, since 2006. He seemed eager to play a positive role in resolving the claims compensation issue, and demonstrated acute appreciation of the need to move quickly to do so. Ghanem's comments on DePSA work highlight how politically sensitive oil and gas issues are in the domestic Libyan political context, and suggest that the NOC is not likely to determine whether and how to open a DePSA bid round to foreign companies soon. End comment.
STEVENS